

TAX YEAR

2018

INDIVIDUAL
MODERNIZED
E-FILE

STATE OF HAWAII
DEPARTMENT OF TAXATION
SOFTWARE PROVIDERS
AND
TRANSMITTERS
HANDBOOK



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SECTION 1: INTRODUCTION

The State of Hawaii, Department of Taxation (DOTAX), in conjunction with the Internal Revenue Service (IRS), accepts state Individual Income Tax returns and corresponding forms and schedules using the Modernized E-File (MeF) system. DOTAX supports "linked" and "unlinked" submissions.

The current schema package approved for production is: **HIIndividual2018V1.0**.

To participate in the Hawaii MeF Program, software providers must adhere to the guidance in this handbook. All IRS requirements must also be met to participate in the Hawaii MeF program. However, this handbook does not represent the requirements and procedures issued by the IRS. For more information and technical guidance refer to the IRS MeF User Guides and Publications at www.irs.gov.

For more details regarding the preparation of Hawaii individual income tax returns, including forms, schedules and instructions refer to our DOTAX website at tax.hawaii.gov or FTA State Exchange System (SES).



SECTION 2: CHANGES TO NOTE FOR TAX YEAR 2018

1. You may exclude up to \$6,564 of your military reserve or Hawaii National Guard duty pay from your income for taxable years beginning after December 31, 2017. (Act 197, SLH 2004)
2. Three income tax rates and brackets for the highest-income taxpayers are reinstated for taxable years beginning after December 31, 2017. (Act 107, SLH 2017)
3. A qualifying individual taxpayer may claim a new nonrefundable Earned Income Tax Credit equal to 20 percent of the federal earned income credit claimed on the taxpayer's federal income tax return for taxable years 2018 to 2022. (Act 107, SLH 2017)
4. Hawaii has adopted the federal provisions that:
 - Increases the adjusted gross income limitation on cash contributions from 50% to 60%, effective for contributions made in tax years 2018 to 2025.
 - Repeals the current 80% deduction for contributions made for university athletic seating rights, effective for contributions made in tax years beginning after 2017.
 - Repeals the exception to the contemporaneous written acknowledgement requirement for contributions of \$250 or more when the donee organization files the required return, effective for contributions made in tax years beginning after 2016.
 - Amends the definition of losses from wagering transactions to include any otherwise allowable deduction incurred in carrying on wagering transactions (e.g., traveling to and from a casino), applicable to tax years beginning after 2017 and before 2026.
 - Reduces the medical expense deduction floor to 7.5% of adjusted gross income for tax years 2017 and 2018.
 - Eliminates the current above-the-line deduction for alimony payments and does not require the payee receiving alimony payments to include alimony payments in income, effective for divorce decrees, separation agreements, and certain modifications entered into after 2018.
 - Excludes from gross income, income resulting from the discharge of certain student debt on account of the death or total and permanent disability of the student, effective for loans discharged after 2017.
5. Limits the net operating loss (NOL) deduction for NOLs arising in tax years beginning after 2017 to 80% of taxable income, eliminates NOL carrybacks (except for farming NOLs which are permitted a two-year carryback), and allows unused NOLs to be carried forward indefinitely.
6. Limits the nonrecognition of gain or loss to like-kind exchanges of real property that is not held primarily for sale, generally applies to exchanges completed after 2017.
7. Increases the amount that taxpayers may designate from their individual income tax refunds to the Hawaii Public Libraries Special Fund from \$2 to \$5 (\$4 to \$10 if filing a joint return) for tax years after 2017. (Act 170, SLH 2018)
8. The Healthcare Preceptor Tax Credit is a new nonrefundable credit for tax years beginning after 2018 for taxpayers who supervise volunteer-based supervised clinical training rotations. (Act 43, SLH 2018)



SECTION 3: CONTACT INFORMATION

3.1 TESTING INQUIRES

ATS support begins from the ATS open date (November of each year) until January 31st of each year.

Contact the Individual MeF Testing Group at tax.ind.mef.test@hawaii.gov

3.2 PRODUCTION INQUIRIES

Production support begins from the MeF live date until the IRS production shutdown date (November of each year). Contact the Electronic Processing Section at tax.efile@hawaii.gov

3.3 CONTACT HOURS AND HOLIDAYS

Our contact hours are Monday through Friday, 8:00 a.m. to 4:00 p.m. Hawaii Standard Time. Our office will be closed on weekends and on all National and State of Hawaii holidays.

Holidays	2018	2019
New Year's Day		Jan. 1, Tuesday
Dr. Martin Luther King, Jr. Day		Jan. 21, Monday
Presidents' Day		Feb. 18, Monday
Prince Jonah Kuhio Kalaniana'ole Day		Mar. 26, Tuesday
Good Friday		Apr. 19, Friday
Memorial Day		May. 27, Monday
King Kamehameha Day		Jun. 11, Tuesday
Independence Day		Jul. 4, Thursday
Statehood Day	Aug. 17, Friday	Aug. 16, Friday
Labor Day	Sept. 3, Monday	Sep. 2, Monday
General Election Day	Nov. 6, Tuesday	N/A
Veterans' Day	Nov. 12, Monday	Nov. 11, Monday
Thanksgiving	Nov. 22, Thursday	Nov. 28, Thursday
Christmas	Dec. 25, Tuesday	Dec. 25, Wednesday



SECTION 4: ACCEPTANCE AND PARTICIPATION

In order to participate in the Hawaii MeF program, each year software providers and direct transmitters must provide the information requested below. Otherwise, any submitted test returns will be automatically rejected.

4.1 SOFTWARE PROVIDERS

In addition to your submission of the National letter of intent, DOTAX requires the submission of the Hawaii State Letter of Intent (LOI) to participate in its MeF Program. The Hawaii LOI is available on the DOTAX website at tax.hawaii.gov.

Software Providers that do not submit the 2018 Hawaii LOI by **November 9, 2018** ~~October 31, 2018~~, will not be approved for Hawaii ATS for tax year 2018.

Upon receipt and approval of your Hawaii LOI submission, DOTAX will grant you access to the Hawaii individual schemas, business rules and test packages posted on Federation of Tax Administrators (FTA) State Exchange System (SES), and inform you when you may begin sending submissions for ATS.

Software Providers must pass ATS and receive approval by DOTAX before submitting live returns. DOTAX reserves the right to deny a request to participate in Hawaii's MeF program. Live returns submitted prior to the completion of ATS will be rejected.

4.2 DIRECT TRANSMITTERS

Direct transmitters must use an approved third party software product, please e-mail the following information to tax.efile@hawaii.gov, and include the "Direct Transmitter Info" in the subject of the e-mail. Please do not transmit any returns until you receive a confirmation e-mail from DOTAX that your set-up is completed, otherwise submissions will be rejected.

1. Direct transmitter's company name and address
2. Direct transmitter's contact name
3. Direct transmitter's contact number
4. Direct transmitter's ETIN
5. Approved software product name
6. Approved software ID



SECTION 5: SOFTWARE ACCEPTANCE, TESTING AND APPROVAL

The Hawaii Test Packages for Individual MeF are provided in Publication EF-6 (PUB EF-6), which is available on the FTA SES. PUB EF-6 consists of 10 test scenarios.

N-11 Test Package

- Five test scenarios are required for software that supports Form N-11 (excluding any forms and schedules not supported by your product).

N-15 Test Package

- Five test scenarios are required for software that supports Form N-15 (excluding any forms and schedules not supported by your product).

5.1 TESTING PERIOD

2018 ATS begins on – IRS ATS open date (*subject to change*)

5.2 PROCEDURES FOR TESTING

The Individual MeF Testing Group will notify software providers by e-mail when their testing can begin.

To make a request for ATS verification, e-mail the following to tax.ind.mef.test@hawaii.gov:

1. Your test ETIN (*include in subject line*)
2. Date of submission
3. Number of submissions
4. Submission ID(s) (*must be in plain text format*)

Note: Transmissions with a rejected status cannot be verified for ATS. Ensure that your transmissions have an accepted submission status before sending the e-mail.

Pass/Fail testing

1. DOTAX will verify test scenarios in a timely manner: usually **within 5 to 7 business days of receipt**.
2. ATS must be completed by **January 31, 2019** to participate in the Hawaii MeF Program.
3. An "Accepted" acknowledgement means that your submission has been validated against DOTAX's schemas and business rules, and accepted for processing. However, the submission must still be checked against the test scenarios. DOTAX will inform you by email with the status of the test results.
 - PASS – The test scenario(s) was received and passed the testing process. No further action is required for that test scenario.
 - FAIL – The test scenario(s) was received but failed the testing process. Please make the necessary corrections and resubmit the failed test scenario(s) only.
4. DOTAX reserves the right to require the software providers to re-test their products at DOTAX's discretion.

5.3 INDEPENDENT TESTING

After passing ATS with DOTAX, software providers may conduct independent testing using their own data. Please use the same taxpayer entity information (i.e. names and social security numbers) provided in the test scenarios. The independent test submissions are not verified by the Individual MeF Testing Group. Any inquiries regarding independent test results should be sent via e-mail. Please include your test ETIN in the subject of the e-mail.



SECTION 6: ACKNOWLEDGEMENT SYSTEM

1. All data transmitted through the MeF system must be in accordance with the DOTAX schemas and business rules documents, which are posted on the FTA SES.
2. Upon receiving the submission, DOTAX will generate a receipt to the IRS. After processing the submission, DOTAX will send an acknowledgement of acceptance or rejection within one business day.
3. For linked submissions DOTAX will generate a separate acknowledgment from the IRS acknowledgment. Receiving an IRS acknowledgment does not mean that DOTAX acknowledges receipt of the state income tax return.
4. Once MeF is live, software providers must be available to correct any software errors that may arise, and work with DOTAX to follow up on any processing issues. Any new release of software must be done in a timely manner, with proper notification to all customers.

DOTAX reserves the right to reject submissions and to require retesting of product(s) at DOTAX's discretion.

SECTION 7: GENERAL INFORMATION

7.1 DOCUMENTS NO LONGER SUPPORTED BY SCHEMAS

1. Form N-158: Investment Interest Expense Deduction
2. Form N-210: Underpayment of Estimated Tax for Individuals
3. Form N-342A: Information Statement Concerning Renewable Energy Technologies Income Tax Credit For Systems Installed and Placed in Service on or After July 1, 2009
4. Form N-615: Computation of Tax for Children Under Age 14 Who Have Unearned Income of More than \$1,000
5. All Worksheets A, PY and NR: Itemized Deductions Worksheets
6. Schedule K-1 (N-20): Partner's Share of Income, Credits, Deductions, Etc
7. Schedule K-1 (N-35): Shareholder's Share of Income, Credits, Deductions, Etc.

7.2 NEWLY SUPPORTED BINARY ATTACHMENTS

Binary attachments with the file name beginning with:

1. ReturnN11: Form N-11 and attachments
2. ReturnN15: Form N-15 and attachments
3. OtherHawaiiAdd: Other Hawaii Additions on Form N-11
4. OtherHawaiiSubtraction: Other Hawaii Subtractions on Form N-11
5. Tax Computation: Tax From Separate Forms Indicator
6. MSRRA: MSRRA Indicator on Form N-15
7. COMPOSITE: COMPOSITE Indicator on Form N-15
8. TaxPaidAnotherState: Income Tax Paid To Other State Or Country on Schedule CR
9. FormN356: Earned Income Tax Credit on Schedule CR
10. FormSchK1: Other Refundable Credits on Schedule K-1
11. DueDiligence: Credit For Child And Dependent Care Expenses on Schedule X
12. FormN210: Underpayment of Estimated Tax for Individuals

7.3 MEF SUPPORTED DOCUMENTS

7.3.1 FORMS



XML Doc. Name	Form No.	Description
FormN11	Form N-11	Individual Income Tax Return (Resident)
FormN15	Form N-15	Individual Income Tax Return (Nonresident and Part-Year Resident)
FormN311	Form N-311	Refundable Food/Excise Tax Credit
FormN312	Form N-312	Capital Goods Excise Tax Credit
FormN342	Form N-342	Renewable Energy Technologies Income Tax Credit for Systems Installed and Placed in Service on or After July 1, 2009

7.3.2 SCHEDULES

XML Doc. Name	Form No.	Description
SchCR	Schedule CR	Schedule of Tax Credits
SchX	Schedule X	Tax Credits for Hawaii Residents

7.3.3 IRS FORMS

XML Doc. Name	Form No.	Description
IRS1099R	1099-R	Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
IRSW2	W-2	Wage and Tax Statement
IRSW2G	W-2G	Certain Gambling Winnings
State1099B	1099-B	Proceeds from Broker and Barter Exchange Transactions
State1099G	1099-G	Certain Government Payments
State1099K	1099-K	Payment Card and Third Party Network Transactions
State1099Int	1099-INT	Interest Income
State1099Misc	1099-MISC	Miscellaneous Income
State1099DIV	1099-DIV	Dividends and Distributions
State1099OID	1099-OID	Original Issue Discount

7.3.4 BINARY ATTACHMENTS

A binary attachment is required for all Hawaii forms and schedules, even when a schema exists. The ReturnN11 and ReturnN15 binary attachment must include the primary return and all attachments that complete the return package.

File Name begins with	Description
ReturnN11	Form N-11 and attachments
ReturnN15	Form N-15 and attachments



A separate binary attachment must also be included in the submission, when required by the business rules. The binary attachment must begin with the file name listed below.

File Name begins with	Description
ArboristAffidavit	Exceptional Tree Deduction
RestraintInvoice	Child Restraint System
DoneeAcknowledgment	Written Donee Acknowledgement
OtherHawaiiAdd	Other Hawaii Additions
OtherHawaiiSubtraction	Other Hawaii Subtractions
TaxComputation	Tax from Separate Forms Indicator
FormN210	Underpayment of Estimated Tax for Individual
MSRRA	MSRRA Indicator
COMPOSITE	Composite Indicator
TaxPaidAnotherState	Income Tax Paid to Other State Or Country
FormN356	Earned Income Tax Credit
FormSchK1	Other Refundable Credits, Taxes Withheld on HI Property Sale
DueDiligence	Due Diligence Statement on Schedule X

7.4 SIGNATURE REQUIREMENTS

Please see Hawaii State LOI.

7.5 FINANCIAL TRANSACTIONS

DOTAX supports Automated Clearing House (ACH) debit payments and direct deposit refunds. International Automated Clearing House Transactions (IAT) are not supported for payments and refunds. A payment can only be submitted from a single bank or other financial institution account. A refund can be directly deposited into a single bank or other financial institution account.

DOTAX does not support post-dated payments.

Taxpayers may also submit payment through the DOTAX website at hitax.hawaii.gov.

If a bank rejects a direct deposit for incorrect account/routing number or for its own policy regulations, or for first time filers, DOTAX will issue a paper check and send it to the address of record.

7.6 TYPES OF FILINGS ACCEPTED

DOTAX accepts Linked (Federal/State) and Unlinked (State Only) submissions.

7.7 DECIMAL PLACES FOR RATIOS

Requirements are provided in the XML schema documents.

7.8 EDITS AND VERIFICATIONS

1. Error Categories:



- Data Validation Error
 - Math Error
 - Missing Data
 - Missing Document
 - XML Error
2. Severity:
- Alert
 - Reject

7.9 GENERAL EXCLUSIONS FROM ELECTRONIC FILING

1. Returns prior to tax year 2016
2. Returns other than N-11 and N-15
3. Amended returns
4. Returns with Net Operating Loss (NOL) Carryback indicated
5. Returns for Fiscal Year filers
6. Returns that require attachment of forms or schedules that are not supported by the State of Hawaii MeF program
7. Returns for Decedents
8. Returns with "Applied For" primary and/or secondary taxpayer identification number
9. Post-dated payments

SECTION 8: SCHEMAS AND TRANSMISSION SPECIFICATIONS

The approved XML schemas package and business rules will be posted on the FTA SES.

SECTION 9: HANDBOOK UPDATES

Document Version Number	Updates
V1.1	-Updated LOI due date to November 9, 2018 -Removed binary attachment ReturnN11 and ReturnN15
V1.0	-Overall updates: Tax year from 2017 to 2018 -Section 1: Updated schemas version -Section 2: Updated changes for Tax Year 2018 -Section 3: Updated contact information and Holidays 3.1 Changed testing contact group from Electronic Processing Testing group to Individual MeF Testing Group Changed email address from tax.efle.test@hawaii.gov to tax.ind.mef.test@hawaii -Section 7: Updated general information 7.1 Added documents not supported by Schemas 7.2 Added newly supported binary attachments 7.3 Updated supported documents 7.5 Updated financial transactions 7.9 Updated exclusions